



PHILIP MORRIS COMPANIES INC.

LEGAL DEPARTMENT
FIVE YEAR PLAN

1992-1996

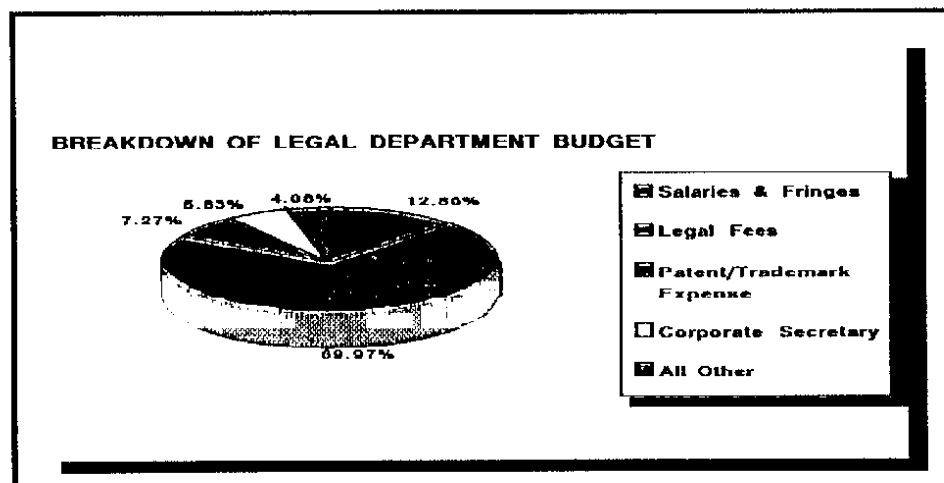
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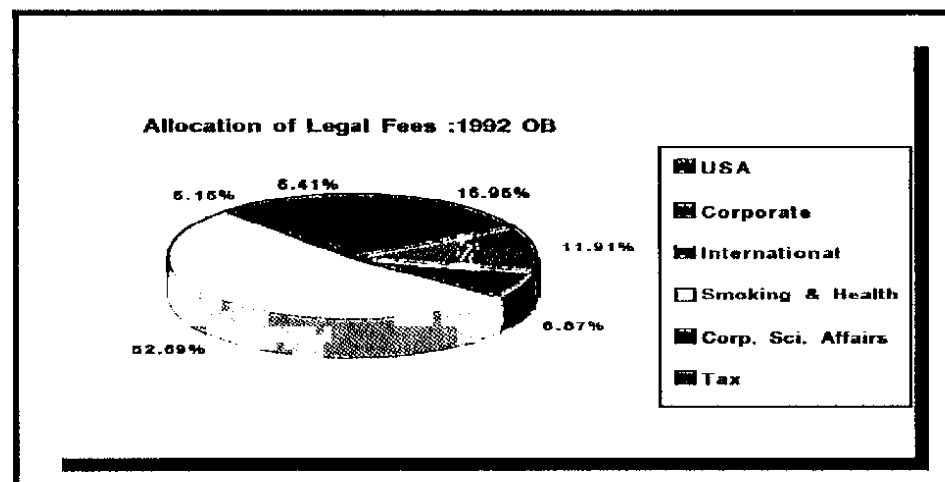
Objective # 4
Continue Efforts to Reduce the
Legal Department's Operating Cost

BACKGROUND

Like other staff departments, the Legal Department is committed to operating in the most cost-effective manner possible. Our major target for cost reduction lies in the area of legal fees, which account for slightly under 70% of the Legal Department's budget:



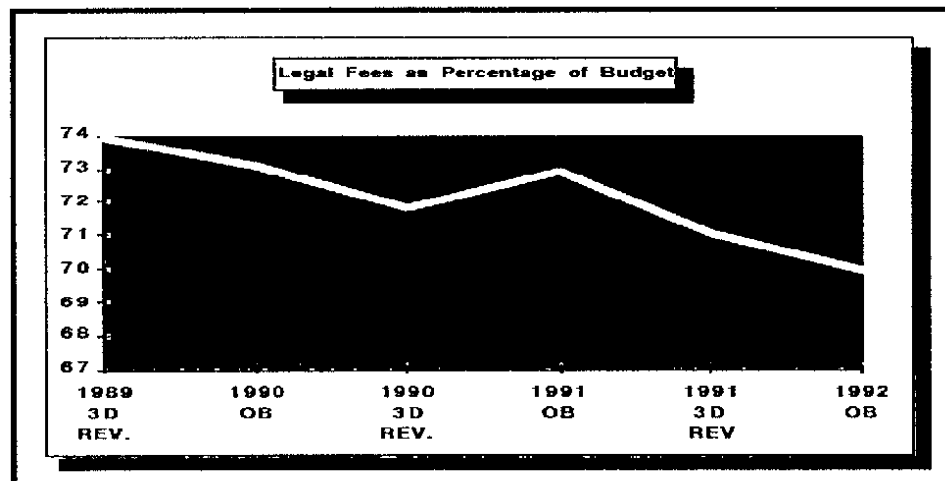
Currently, legal fees allocated for smoking and health matters account for the largest segment of our outside counsel budget:



Over the 1992-1996 Plan Period, the Department will continue its efforts to manage outside counsel to ensure high quality as well as cost effective services.

1991 HIGHLIGHTS

- Reduced the Department's 1992 Original Budget to \$59,170,000, which is \$4.2 million less than the Department's 1991 Original Budget.
- Commissioned a study by an independent consulting firm, Endispute Incorporated, to identify major areas of opportunity to reduce outside counsel expenses.
- By holding the hourly rates charged by outside counsel to 1990 levels and other measures, we have reduced legal fees as a percentage of budget:



Legal Department Five Year Plan (1992-1996)

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PROJECTS

- (1) Provide in-depth training sessions on outside counsel management to all Philip Morris attorneys and enhance the Department's policies and procedures governing the use of outside counsel.
- (2) Explore opportunities for savings through the consolidation of legal work in a limited number of preferred firms on advantageous terms.
- (3) Expand the use of alternatives to hourly billing, including fixed rates, blended rates, and volume discounts.
- (4) Consider bringing work in-house in those instances where there is a long-term need for certain types of legal work. *See also* Objective # 3.
- (5) Develop more formalized mechanisms to share work product and expertise throughout the Legal Department in a way which will prevent duplication of effort. *See also* Objective # 3.
- (6) Apply technology to reduce operating costs. *See also* Objective # 6.
- (7) Continue efforts to utilize alternative dispute resolution (ADR) instead of litigation in all appropriate circumstances as a way to reduce costs.